

COMMITTEE ON GOVERNMENT REFORM
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For Immediate Release
March 5, 2003

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Government Reform Committee to Mark-Up
Postal Service Pension Bill

What: Government Reform Committee mark up of HR 735, the Postal Civil Service Retirement System Funding Reform Act of 2003

When: Thursday, March 6, 2003,

Where: 2154 Rayburn House Office Building

BACKGROUND

H.R. 735 was introduced on February 12th, 2003 by Congressmen McHugh, Waxman, Tom Davis, and Danny Davis of the Government Reform Committee. This bipartisan legislation will fix the projected overpaying of the Civil Service Retirement System by the United States Postal Service.

In a December 2001 report, *United States Postal Services: Information on Retirement Plans*, the GAO raised the question of whether the United States Postal Service was paying more or less than appropriate to cover payments for the Civil Service Retirement System for which it is responsible. At the behest of the General Accounting Office, the Office of Personnel Management reviewed the current funding procedures of the USPS to the Civil Service Retirement System under law.

The Office of Personnel Management (OPM) determined that the Postal Service, based on payments required by existing law, would overpay its obligations to the Civil Service Retirement System (CSRS, the pre-1984 retirement system) by well over \$70 billion dollars. As a result, without this legislative correction, the Postal Service would unnecessarily raise postage rates for the American mailing public earlier than required.

LEGISLATION

In order to correct this problem, OPM proposed legislation modeling the Postal Service's payments to CSRS after its payments to the current Federal Employee Retirement System (FERS). This would result in a reduction in the Postal Service's annual obligation to CSRS, allowing the Postal Service to delay its next rate increase beyond 2004 to at least fiscal year 2006.

The Government Reform Committee awaited the results of a GAO evaluation of OPM's proposed legislation. The legislation under consideration incorporates much of the language approved by the Administration. This bipartisan bill also has the support of USPS as well as all postal labor unions, management groups, and postal consumers.

The bill requires the Postal Service to work with the Department of the Treasury to apply the funds saved to pay down its debt to the Treasury in fiscal years 2003 and 2004. In fiscal year 2005, the bill directs the Postal Service to use the savings to delay an anticipated rate increase. After 2005, the bill requires the Postal Service and OPM to calculate the difference between the cost to fund CSRS under the bill and the cost under the old law. These funds would be held in escrow until Congress acts on a Postal Service proposal outlining what should be done with the funds.

Additional mandates, in the form of a sense of Congress, would direct that some portion of saved funds be used to hold postage rates unchanged until at least 2006, to fund retiree health benefits, and to not pay for executive bonuses.

A Congressional Budget Office (CBO) review of the administration's proposal concluded that reducing the Postal Service's payments into the retirement fund could actually increase federal budgetary deficits by as much as \$10 billion to \$15 billion over the 2003 to 2007 period. According to CBO, the actual impact on the federal budget would depend on how the Postal Service used its savings from lower retirement contributions (*i.e.*, to postpone a rate increase or repay debt to the Treasury). The CBO estimate is incomplete because it failed to account for the negative impact of a postal rate increase on the \$900 billion mailing industry, that also accounts for 9 million jobs, which could result in more severe impact to the federal budget and the economy as a whole. Additionally, if rate increases are postponed, there would be a positive impact on postal volume and revenue that is not reflected in CBO's scoring. CBO has not scored H.R. 735.

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